VOL 9 No 2 FEBRUARY 1979

SURVEY of Current Affairs

Government and Administration

Gilbert Islands Constitutional Conference 23

External Affairs and Defence

The Guadeloupe Summit 25
European Community 26
Rhodesia 28
Apartheid in South Africa: Foreign Secretary's Speech 28

Economic and Scientific Affairs

Counter-Inflation Policy and Industrial Relations 30
Public Expenditure Plans 32
Civil Aviation 37
Shorter Notes 38
Industry Bill; Dangerous Pathogens in Laboratories

Social and Cultural Affairs

International Year of the Child 39

Documentation

40

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GOVERNMENT AND ADMINISTRATION

Gilbert Islands Constitutional Conference

The Gilbert Islands will become the independent republic of Kiribati in July. This was agreed at the Gilbert Islands constitutional conference held in London between 21 November and 7 December 1978. The conference also agreed on an independence constitution which, among other things, will contain a wide range of safeguards concerning the Banabans and Ocean Island (Banaba). The Banaban delegation withdrew from the conference following the refusal of its demand for complete separation from the Gilbert Islands in advance of independence.

The Conference[1]

The conference made full provision for a constitution guaranteeing the maintenance of human rights and freedoms within a republic with an executive President and a unicameral legislature. The offices of head of State and head of Government will be held by the nationally elected President. Candidates for President will have to be members of the legislature which will be responsible for the nomination of not less than three nor more than four candidates. Executive authority will be vested in a Cabinet collectively responsible to the legislature and chaired by the President.

The financial settlement includes development aid from Britain of £15·5 million for the four years 1979-82 plus special budgetary assistance of over £5 million during this period. In addition there is to be a continuing technical co-operation programme.

A particular problem faced by the conference was the future position of Ocean Island. The inhabitants of the island (the Banabans) were largely resettled on the island of Rabi in Fiji after the second world war as a result of Ocean Island's occupation by the Japanese. Rabi was purchased for the Banabans with funds accumulated from phosphate royalties.

The Rabi Council of Leaders represented the Banabans at the conference and demanded complete separation of Ocean Island from the Gilbert Islands in advance of independence. This demand was refused by the British Government on the grounds that there were strong legal, constitutional and historical objections to making territorial changes; in dealing with such cases successive British Governments have adhered to the principle that the wishes of the people as a whole within existing boundaries should be the main guide. Following this refusal the Banaban delegation withdrew from the conference.

Despite this withdrawal several safeguards for the Banabans were agreed by the United Kingdom and Gilbert Islands delegations; these concern land rights and freedom of access to Ocean Island, representation in the Gilbert Islands House of Assembly, citizenship, rights of appeal to the Privy Council and the appointment of an independent commission of inquiry after five years to review and make recommendations on the operation of the constitutional provisions relating to Ocean Island. These safeguards are to be entrenched in the constitution by providing for a Banaban veto on any changes to the relevant constitutional provisions.

The Gilbert Islands delegation also presented proposals indicating its Government's readiness to contribute to the confidence of the Banabans. These include providing legislation for a Banaban island council, guaranteeing that Banaban income from phosphate extraction will remain free of tax, and undertaking to provide money and administrative and social services to Ocean Island.

In addition an offer made by the United Kingdom Government in May 1977 remains open, namely an *ex gratia* offer of $ Australian 10 million to secure the future of the Banaban community on Rabi Island after its royalties from phosphates on Ocean Island cease in late 1979. In the course of the conference Lord Goronwy-Roberts, Minister of State at the Foreign and Commonwealth Office, informed the Chairman of the Rabi Council by letter that he was ready to discuss its request for interest on this sum and also offered to make available a fund of up to £1 million for development projects on Rabi. In his closing speech to the conference, Lord Goronwy-Roberts said that the British Government, in agreement with the Gilbert Islands Government, was planning a resources survey of Ocean Island in order to identify projects that could be undertaken once the phosphate deposits had been exhausted.

Background

The Gilbert Islands dependency consists of three groups of islands – the Gilbert, the Line and the Phoenix Islands. It is situated in the south-west Pacific and is scattered over an area of 5·2 million sq km (2 million sq miles). The total land area is 684 sq km (264 sq miles) and there is a population

[1]See *Report of the Gilbert Islands Constitutional Conference*. Cmnd 7445. HMSO, 80p. ISBN 0 10 174450 1.

of about 52,000; the most populated island is Tarawa, the capital, which has 17,100 people.

The economy of the islands is largely based upon the export of phosphate rock and copra (the dried kernels of coconuts). Because the phosphate deposits, mined in Ocean Island for 75 years, are almost exhausted, this major source of revenue is being replaced by the establishment of small secondary industries, the expansion of copra production and the promotion of the fishing industry. Financial aid from Britain supports these developments; nearly £2·5 million was granted to the Gilbert Islands for 1977.

Following a series of constitutional developments from 1963 onwards, internal self-government came into effect on 1 January 1977 (see p 21, 1977). The constitutional conference was called to make provision for transition to complete independence in 1979.

[For further information see COI fact sheet *The Gilbert Islands*, FS9/77.]

EXTERNAL AFFAIRS AND DEFENCE

The Guadeloupe Summit

At a meeting on the French Caribbean island of Guadeloupe on 4-6 January the Presidents of France and of the United States, the Federal German Chancellor and the British Prime Minister discussed political and security developments, concentrating in particular on defence, détente and disarmament. No communiqué was issued but the Prime Minister, Mr James Callaghan, made a statement and answered questions about the summit in the House of Commons on 16 January.[1]

Mr Callaghan said in his statement: 'The vital issues before us were how our people could live more securely in peace and how their security could be better assured.'

Relations with China and the Soviet Union

The Prime Minister reported that, in examining the inter-relationships between their countries, the Soviet Union and China, the four leaders had 'agreed that significant progress had been made in relaxing tension between the Soviet Union and the West and that [they] would do all within [their] power to maintain this'. They had examined the possible consequences of 'the significant emergence of China onto the world scene' (see pp 430-1, 1978) and of the recent recognition of the People's Republic of China by the United States (see pp 9-10). They had concluded that 'it is in the interests of peace and global security that China should make its proper contribution to strengthening international stability' and they had taken 'a positive position on the need to develop closer relations between China and the West'. However, these relations would not be at the expense of any other country. The four countries' relations with the Soviet Union were as important to them as their relations with China; and the four leaders had emphasised that their relations with the Soviet Union 'must remain central to the development of *détente*', and that China 'must not be left in doubt that this is so'.

In answer to a question about the possibility of pursuing an even-handed policy towards China and the Soviet Union, Mr Callaghan said that the West would be 'most short-sighted' if it were to show no concern for future relations with the Soviet Union. He pointed out that 'in a few years' the Soviet Union would have a new leadership 'which should come to power believing that the West wants to establish and maintain peaceful and good relations' with it.

The Prime Minister said that the four leaders had discussed China's requests for supplies of arms (see p 430, 1978). He had explained that the British Government was ready to negotiate the sale of Harrier aircraft [the Chinese Government had recently expressed interest in buying a number of these vertical take-off aircraft], 'provided this is balanced by substantially increased trade in other fields which would bring significant benefit to [Britain's] civilian export industries'.

Mr Callaghan said the Government regarded the Harrier as 'essentially a defensive aircraft'. In answer to a question, he said that one could not draw a sharp line between offensive and defensive weapons, 'although basically, in so far as the Soviet Union may express any fear about the supply of Harriers, [the Government] would regard [the Harrier] as being broadly a defensive weapon in terms of relations between China and the Soviet Union'.

Arms Control

The Prime Minister said that much time had been taken up at the meeting in discussion about strategic arms limitation. Referring to the approaching completion of the negotiations for the Strategic Arms Limitation Talks (SALT) II agreement between the Soviet Union and the United States (see pp 384-5, 1978 and p 6), he expressed the Government's hope that the agreement would be 'speedily' ratified following its conclusion. He said that President Valéry Giscard d'Estaing and Chancellor Helmut Schmidt had both expressed support for early ratification. (Ratification by the United States requires approval by the Senate, some of whose members have been reported to be critical of the SALT proposals.)

The four leaders had also talked about their positions on the discussions which would follow the SALT II agreement, and, in particular, about the question of the possible inclusion of 'grey areas' (nuclear weapon systems below the level regarded as strategic) in any further negotiations, whether in SALT III or separately. Mr Callaghan pointed out that this question affected the interests and security of Britain, France and the Federal Republic of Germany. In answer to a question about the effects of the summit meeting on government policy, he said that the talks had increased the Government's understanding of the Federal Republic's concern

[1] *Hansard*, cols 1497-506.

about its safety, especially in view of the Soviet Union's deployment of missiles such as the SS 20. The large advantage enjoyed by the Soviet Union in these 'grey areas', said Mr Callaghan, must be of concern to all the countries represented at the summit, and especially to the Federal Republic, 'which is in the front line'.

The Prime Minister also reported that the four leaders had had 'a useful discussion' about the Mutual and Balanced Force Reductions (MBFR) negotiations (see pp 6-7) and the new French proposal for a European disarmament conference. In answering a question, Mr Callaghan explained that, at the summit, France (which is not participating in the MBFR talks) had put forward 'an alternative proposition' for extending the talks so that they would cover the area from the Atlantic to the Urals. He added: 'I am not sure how this proposition would be received in the Soviet Union, for example, and I would be loth to depart from the present MBFR discussions in order to start an entirely fresh scenario.' (The present talks are concerned with Central Europe only. Background information on these and other arms control negotiations and agreements is contained in COI reference pamplet, *Arms Control and Disarmament*, R6031/77.)

Other Issues

The Prime Minister told the House that the four leaders had also exchanged views on 'shorter-term foreign policy issues such as the situations in Iran, Turkey, the Middle East and southern Africa'. He had found that President Carter and himself 'were in full agreement that the Anglo-American proposals remain the basis for a negotiated settlement in Rhodesia and on the need to continue our joint efforts' (see p 424, 1978).

In answering questions, Mr Callaghan referred to the Shah's departure from Iran on 16 January, and said that the four powers would 'try to evolve a situation that will safeguard the interests of the West but would at the same time permit the people of Iran to chose their own leader properly and, I hope, democratically'.[1] With regard to Turkey's economic problems, it had been agreed at the summit that the Federal Republic of Germany, which has close connections with Turkey, 'should take the lead in discussing how improvements can be made and how help can be given in addition to the present help given through the International Monetary Fund to assist Turkey's economic position'. The Prime Minister hoped that a number of countries would be associated with these discussions.

Importance of the Summit

In concluding his report on the meeting, the Prime Minister said that it had been, 'by general consent, of great value and importance . . . to the Western Alliance as a whole'. It would not have been right or possible for the four leaders to take decisions without consultation with their other allies and partners, and they had taken no final positions. However, helped by the 'deliberate informality' of the meeting, they had reached 'closer understanding of each other's points of view and improved [their] perception of the central political and security issues which lie ahead'. That was a matter of considerable importance 'for the successful pursuit of further negotiations in the field of arms limitation without injuring the security of the Western Alliance'.

[1]The Shah left Iran for a holiday abroad following several months of mass demonstrations against his rule. Before his departure the Shah had appointed a new government under Dr Shahpur Bakhtiar. On 1 February the Ayatollah Khomeini, who led the opposition to the Shah, returned to Iran after 15 years of exile, and following serious clashes between the Ayatollah's supporters and the army, Dr Bakhtiar resigned on 11 February. A new government was formed under Mr Mehdi Bazargan, nominated earlier by the Ayatollah. Britain recognised the government on 13 February.

European Community

THE DEVELOPMENT OF THE COMMUNITY

Britain's belief in the importance of the enlargement of the European Community was one of the themes of a speech on the Community's future development given on 25 January by Mr Frank Judd, Minister of State at the Foreign and Commonwealth Office.

Enlargement

Speaking at a conference of the European League for Economic Co-operation,[1] Mr Judd described enlargement as 'a crucially significant issue on the agenda of the Community and the applicant states', and said that Britain had taken a prominent position within the Community in favour of enlargement. The negotiations with Greece would be completed within the next few months, and Greece would be welcomed into the Community possibly in 1980 but no later than the beginning of 1981. Negotiations with Portugal had started (see p 247, 1978), and the formal opening of the Spanish negotiations would soon be taking place[2]; Britain hoped that these two countries would become members of the Community by 1983 at the latest.

On the consequences of enlargement on countries outside the Community, Mr Judd said that, while the problems of those countries, especially those on the other side of the Mediterranean, should not delay the process of enlargement, 'our sense of responsibility must mean that we do look to the inevitable consequences which will follow for them . . . and we must see to it that at an early stage we are using the expert resources of the Community to discuss and plan with them for the adjustment of their economic and agricultural systems'.

The Community's Role

The British Government, Mr Judd said, did not see the Community as an end in itself, but as an organisation 'which is there to be used in furthering social, economic and political objectives'. It was to be judged by how far it succeeded or failed in

[1]The European League for Economic Co-operation is a non-governmental organisation which promotes closer co-operation in Western Europe.

[2]The formal opening of the negotiations with Spain took place on 5 February.

doing this, and it could not be more than 'the sum total of the effective co-operation worked out and genuinely endorsed by its member countries'. If the Community was to make a positive contribution, it was necessary to view it against the background of two basic political realities. First, there was the 'total inescapability of international interdependence', which meant that the general well-being of the present and future generations in Britain depended on economic, political and social factors elsewhere in the world. Secondly, open, free societies could not succeed on the basis of 'over-centralised bureaucratic decision-making'. Government had to be by consent and this had to apply also to the life of the Community.

The basic reason why the British Government was so positively disposed towards the accession of Greece, Portugal and Spain was because it had welcomed the reassertion of democracy in those countries and believed that in the Community as a whole 'we have a responsibility to underpin and guarantee its development for the future'. Democracy was not merely a technique of government, but also 'an expression of faith and confidence in the concept of a society based upon the integrity, freedom and creative potential of the individual citizen'.

Community Policies

Mr Judd said that, in speaking of the values that Britain believed should predominate in the Community, he had been emphasising common objectives. There would inevitably be arguments about what were the right policies towards fulfilling those objectives, but this was an essential part of the democratic process. What sometimes disturbed him was 'the tendency in the Community to confuse institutions with policies', and he hoped that the 'Three Wise Men' appointed by the European Council (the Committee of Three, see p 5) would keep the essential distinction between objectives, policies and institutions very clearly in mind when they made their recommendations for the future of the Community after enlargement. Institutions were merely the political machinery and could not of themselves be policies. Policies should be constantly open to 'examination, re-evaluation and reformulation', and it was dangerous when attempts were made to institutionalise them.

This applied very much to the Common Agricultural Policy (CAP). Britain agreed that there should be a policy for agriculture in the Community, but it did not accept that 'there is one and only one possible policy for agriculture'. It tested the policy by whether or not it was furthering the interests of the majority of the people in the Community. If it were manifestly failing to do this the time had come for change and adaptation.

Fundamental Interests

In building the future of the Community there would be certain fundamental interests of individual member states which could not be ignored without jeopardising the whole process. It would be in the long-term interests of the Community as a whole 'to see that those interests are not ridden over roughshod but are met and protected'. Where Britain had such interests it would pursue them 'forthrightly and vigorously' in exactly the same way as other member states would pursue their own.

Two such issues were fisheries policy and the CAP. As regards fisheries, it would be 'simply impossible for a British Government to endorse any Community policy which does not demonstrably reflect the fact that 60 per cent of the stocks of Community fish will come from British waters'. On the CAP, it was not sufficiently recognised that Britain was the second largest contributor to the Community budget – a position that did not reflect the reality of Britain's relative economic strength – and that it therefore had a strong view on how the resources of that budget were utilised. Britain could not accept a position in which more than 70 per cent of the budget went into wasteful policies resulting in expensive food surpluses.

Britain accepted that there would be an extra cost of about £90 million to £115 million a year at 1977 prices involved in the process of enlargement, together with other difficulties for the economy. These issues would require a spirit of understanding and compromise in the common interest. 'What we are not prepared to envisage', said Mr Judd, 'is a bill of £1,000 million per year to Britain for an agricultural policy which we believe is manifestly wrong and inefficient.' It was necessary to eliminate costly wasteful surpluses, to see the interests of the consumer better protected and to provide for reasonable access for produce from countries outside the Community.

The Future of the Community

The blueprint of the future of the Community as seen by Britain was now clear. It looked forward to a Community of 12 independent, freely and closely co-operating nations. In a democratic spirit it saw decision-making firmly in the hands of the ministers of the European Council and the Council of Ministers, ministers who would be clearly accountable to their domestic parliaments. There would be a directly elected Assembly (see p 247, 1978), 'as a forum for generating common concern and understanding throughout the member countries about the internal and external issues which confront us all'. Britain hoped that the three new members with their resolve to further the cause of democracy would have a 'regenerating influence on us all'.

Above all, the Community would be assessed by historians by how far it had made it easier to grapple with such formidable economic and social problems as unemployment, the age of advanced technology, the crises in the shipbuilding and steel industries, the need for an effective and socially just international trade system and a successful general relationship with the developing countries. There were also the grave political problems elsewhere in the world which affected everyone in the Community, and Mr Judd expressed satisfaction that, largely due to British insistence, the three new applicants were about to be introduced to the machinery of political co-operation among the Nine.

Conclusions

Mr Judd concluded by noting that it was not only in Britain that there were those who entertained doubts

about the relevance of the Community as an institution for tackling these various problems. However, he believed that 'the overriding challenge to us all now is to join with our colleagues in what will soon be the Community of 12 in a determination to forge the relevant economic and social policies for the future of our people'. Ultimately, neither the Community nor enlargement should be seen as ends in themselves, for the values of society meant that the objective should be 'not simply a fairer, juster Community of 12 but a fairer, juster and thereby more stable world in which increasing numbers of individual citizens are able to exercise their economic and political rights'.

Rhodesia

The Prime Minister, Mr James Callaghan, has accepted the advice of Mr Cledwyn Hughes that no good purpose would be served in convening a meeting of the parties to the Rhodesia conflict in the near future, since there would be no likelihood of a successful outcome. The Government's proposal to set up an inquiry concerning the application of oil sanctions against Rhodesia was approved by the House of Commons but rejected by the House of Lords. In a referendum held on 30 January, some 85 per cent of white Rhodesian voters supported the Executive Council's proposed constitution for introducing majority rule in Rhodesia.

The Hughes Mission

Mr Cledwyn Hughes visited Africa between 27 November and 14 December 1978, the purpose of his mission being to advise Mr Callaghan on whether the right climate existed for an all-party conference on Rhodesia (see p 423, 1978). Accompanied by President Carter's representative, Ambassador Stephen Low, Mr Hughes visited Rhodesia and seven other countries. Consultations took place with the Presidents of Angola, Botswana, Mozambique, Tanzania and Zambia, the leaders of the Patriotic Front, the members of the Executive Council in Salisbury, the Foreign Minister of South Africa and the head of the Federal Military Government of Nigeria.

In a Commons statement on 17 January (*Hansard*, cols 1711-25), Mr Callaghan said that Mr Hughes had concluded that the positions of the parties on the key issues were very far apart, that there was no possibility of their moving sufficiently close to each other to enable an agreement to be reached, and that a conference called now would end in failure and thereby inhibit any new attempt to promote a settlement. The Prime Minister added that he had accepted Mr Hughes's view that he should be ready to call an immediate conference if developments indicated a better prospect of success than would be the case today. He and President Carter were agreed that the Anglo-American proposals remained the best basis for a peaceful solution (see p 424, 1978).

Sanctions Inquiry

The Government's recommendation that Parliament should set up a 'Special Commission on Oil Sanctions' to investigate the policy of oil sanctions against Rhodesia (see p 10) was approved by the House of Commons in a free vote on 1 February by 146 votes to 67 (*Hansard*, cols 1709-816), but rejected by the House of Lords on 8 February by 102 votes to 58 (*Hansard, HL*, cols 849-94). On 12 February the Lord President of the Council and Leader of the House of Commons, Mr Michael Foot, told the Commons that the Government would abide by the House's decision to set up a commission and would come forward with proposals for dealing with the situation (*Hansard*, col 784).

The Referendum in Rhodesia

The British Government's views on the referendum and its result were contained in a Foreign and Commonwealth Office statement issued on 31 January. The statement says that the referendum is no measure of the acceptability of the 'transitional government's' constitutional proposals to the people of Rhodesia as a whole as none of the 3 million adult Africans was entitled to vote on them. It points out that under the proposals 3 per cent of the population will hold 28 per cent of the seats in Parliament (see p 423, 1978) and that the elections due to be held in April will take place against a background of mounting disorder that has led to 90 per cent of Rhodesia being placed under martial law. It also notes that the external parties are banned and the press and radio censored.

'In the British and United States Governments' view', the statement continues, 'the best prospect of ending the bloodshed and of achieving a return to legality and a peaceful settlement in Rhodesia lies in an attempt to find a wider agreement involving both sides in the present conflict, and incorporating such essential features of the Anglo-American proposals as a ceasefire and a neutral administration for the conduct of free and fair elections under United Nations supervision. The elections would be held under impartial control, with the aim of determining the wishes of the people of Rhodesia as a whole, in a manner which could command the acceptance of the international community, and which would be in conformity with the fifth principle laid down by successive British Governments (see footnote, p 424, 1978). Provision would be made for assistance to promote economic development after independence.'

Apartheid in South Africa: Foreign Secretary's Speech

The British Government's belief that apartheid in South Africa will have to change and its determination to use its 'economic influence to apply pressure for peaceful change' in

South Africa were emphasised by the Secretary of State for Foreign and Commonwealth Affairs, Dr David Owen, on 23 January.

Speaking at a public meeting in London to mark International Anti-Apartheid Year, Dr Owen pointed out that no country accepted South Africa's apartheid policy and that it had no moral basis, no social justification and was politically suicidal. 'I think we would all of us say that apartheid has to be changed', he continued. 'The only question is whether that change will evolve through negotiation and discussion or . . . will be forced through from violence and through loss of life.' Contrary to what some white South Africans once believed, he warned, a few more years of minority rule would not lay the foundation for a stable transfer of power. Instead it would breed danger, increase racial bitterness and, in the final event, chaos would emerge as the real threat.

Economic Pressure

Quite apart from the moral case against apartheid, Dr Owen continued, there was another argument which 'should make anyone pause before they blindly accept or weakly tolerate the continuation of apartheid. Economic common sense . . . should now put everyone in [Britain] – businessmen, trade unionists, the politically sensitive and aware as well as committed churchgoers – clearly on the side of those who are prepared to make some sacrifice to see evolutionary change in South Africa.' The Government had recognised the dangers of Britain's current economic dependence on South Africa and had started on the difficult path of reducing its commitment there. Britain's trade with Black Africa was now almost double that with South Africa, and the latter had fallen to sixteenth position as an export market for British goods while Nigeria was now ninth in importance. Britain remained vulnerable, however, because of its need for certain key minerals and because of its huge investment in South Africa. This involvement, Dr Owen said, could not be dismantled overnight, but it carried with it the opportunity for Britain to exercise its 'heavy political and moral responsibility to use [its] economic influence to apply pressure for peaceful change'. Historically Britain had been prosperous because of those links. It now had to face up to the need to use them constructively.

That was one reason why Britain attached so much importance to the code of conduct on employment practices for firms operating in South Africa which it brought into effect in 1978 (see p 212, 1978). The Government was committed to securing compliance by British companies with the code, the purpose of which was to abolish all forms of discriminatory practice at the place of work. The code also aimed to promote substantial improvements in pay for black workers, to improve fringe benefits and other working conditions, and to develop collective bargaining through organisations representative of black African workers. Dr Owen promised that the Government would publish a full assessment of the code's impact and would make public the names of the companies which had provided reports (163 had done so already) and those which had not. He also urged shareholders in firms investing in South Africa, whether as individuals or institutions such as trade unions, to encourage change and to 'refuse to accept that British companies can be associated in any way with the practice of apartheid'.

The Importance of Negotiation

Turning to the Government's role, Dr Owen said that he believed that it was right for Britain and other countries to maintain a constant dialogue with members of the South African Government and to attempt to work politically on an intergovernmental basis for change. Through such discussions there was hope for a transition to majority rule in Namibia as a result of elections supervised by the United Nations. A success in Namibia would 'demonstrate to white South Africans that negotiation also holds the key to resolving the issue of apartheid within South Africa. We have got to restore confidence in the process of negotiation and discussion in Southern Africa', he continued. 'It is not very easy to be certain that that course is going to produce results, but it is also extremely important that, if we can demonstrate movement and success through negotiation, then it will be possible to argue with some credibility in South Africa itself that that course can be used as well . . . .'

Dr Owen emphasised that it would be intolerable for Britain and other countries to relax the pressure for change in apartheid or their condemnation of apartheid because of any deal done to gain support for a more forthcoming South African attitude over Namibia or Rhodesia. 'There have been and there will be no such trade-offs between this Government and the South African Government. They know our position. They know that we fundamentally differ on the issue of apartheid and they do not expect any trade-offs or any bargains.'

Counter-Inflation Policy and Industrial Relations

In recent weeks considerable disruption has been caused to industry and public services by strikes in support of wage claims described by government ministers as excessive and inflationary. Public criticism of some methods of picketing has led to the issue of voluntary codes of practice by trade union leaders to their members. The Government has modified its pay policy to meet the special needs of the lower paid and has tightened control over price rises. At the same time Minimum Lending Rate has been raised to 14 per cent in support of the Government's monetary policy.

On 14 February, after Survey of Current Affairs *had gone to press, the Government and the Trades Union Congress (TUC) issued a joint document setting out an understanding on ways of tackling problems of inflation and economic growth. The document puts forward the aim of reducing the rate of inflation to 5 per cent by 1982 and proposes an annual 'national assessment' by the Government, employers and trade unions of the country's economic prospects, talks on the need for key public service workers to negotiate their pay and conditions without resorting to industrial action, and new guides for unions from the TUC on improving industrial relations in areas including strikes, picketing and the closed shop. It urges a public commitment on prices by employers as part of a collective agreement, and suggests additionally strengthened powers for the Price Commission. Fuller coverage of the document will be given in the next issue of* Survey of Current Affairs.

Background to the Present Unrest

Strikes in both the public and private sectors have been called in support of wage claims that go well beyond the levels set by the guidelines of the Government's pay policy. The first major breach of the 5 per cent guideline was made in the settlement of a dispute at the Ford Motor Company in November after a strike lasting several weeks, which provided for increases averaging 17 per cent. The Government announced its intention of imposing sanctions on the company but was unable to obtain parliamentary approval for the sanctions policy (see p 11). A number of other settlements at high levels in the private sector followed and strikes by oil tanker drivers and certain lorry drivers began a wave of disruption that spread to public service workers and was intensified by a series of strikes by train drivers on a separate but related issue. Workers taking part in strikes included refuse collectors and street cleaners, school caretakers, hospital ancillary workers, and water and sewerage workers.

On a number of occasions concern was expressed in Parliament at the types and manner of some of the picketing undertaken in support of the strikes; as a result, voluntary codes on picketing were drawn up by the leaders of the trade unions involved and circulated to their membership. In one incident a High Court interlocutory injunction was obtained by a company not involved in the lorry drivers' dispute against the organiser of a picket that was preventing delivery of supplies of raw materials from another company similarly not involved in the dispute. (This is generally termed 'secondary picketing'.)

The Government's Attitude

Throughout the period of disruption government ministers have continued to urge the importance of moderation in pay claims and of maintaining the right fiscal and monetary framework. Recalling that 1978 had been a year of 'real achievement for the UK economy in which the rate of inflation had been halved to 8·5 per cent while demand and activity in the economy had grown strongly', Mr Joel Barnett, Chief Secretary to the Treasury, said on 22 January that the Government did not intend to finance inflation. [He was addressing a joint meeting of the Committee on Invisible Exports and the Canadian Institute of International Affairs at Grosvenor House, London.] Money supply was under firm control, he went on. Moreover, during the previous three years the Government had taken a series of hard decisions including public expenditure cuts and tax increases in 1976, the decision to let the exchange rate appreciate in 1977 and the successive interest rate rises in 1978 which were a practical demonstration of the Government's resolve to give control of the money supply a high priority. He thought the fact that sterling had remained strong in the foreign exchange markets in recent weeks, despite the prominence which the Press had been giving to industrial troubles, owed not a little to this. After three successful pay rounds the country was seeing 're-entry' problems; however – as he had made clear in presenting the Government's expenditure plans in a White Paper the previous

week (see p 32) – excessive settlements in the public sector must mean less room for public spending on other things.

The same point was made by the Chancellor of the Exchequer, Mr Denis Healey, in a speech to the House of Commons on 25 January (*Hansard*, cols 732-84). Excessive wage increases in the public sector would not be accommodated by increases in cash limits (separate limits on departmental expenditure programmes covering nearly two-thirds of central government expenditure – see p 32); and to the extent that reductions in the volume of public expenditure were not brought about automatically by adherence to cash limits, they would have to be met by cuts in public expenditure or by larger or earlier increases in the prices charged by nationalised industries to cover their cost increases. The only other alternative would be to raise taxation; some increases in taxation would be necessary in any case since some public expenditure was open-ended and could not be subject to cash limits.

The central problem was described by Mr James Callaghan, the Prime Minister, in an address to the TUC Industrial Strategy Conference on 23 January. Some groups, he said, were asking for awards which the economy could not sustain without a return to inflation. As a result, workers in other industries were placed in the dilemma of being uncertain whether to settle for a figure which they believed to be just and sensible for fear of being left behind by the general level of settlements.[1] People now had to decide the sort of future they wanted. Because of its commitment to economic growth, increased employment and higher standards of living and social provisions, the Government was determined to win the fight against inflation.

In the course of answering questions in Parliament on 8 February, Mr Callaghan also pointed to the dangers to the Government's public expenditure proposals arising from large pay settlements in the public sector. Government plans for a 2 per cent increase had generally been regarded as a sensible approach, he said; but the uncertainties of the present pay position, including the additional costs of meeting some of the claims now being made in the public sector, would be bound in the end to result in having a review of total government expenditure and the borrowing requirement. There could be no escape from that.

Mr Callaghan said that 'the Government must – and intend to – stand firm in their own area. If the country has to suffer a certain amount of disruption, I shall regret it. But that disruption will be less significant in the long run than it would be if we gave way to all these claims.' (*Hansard*, 8.2.79, cols 551-2.)

Opposition Views

The approach of the Opposition to the industrial problems was outlined by its leader, Mrs Margaret Thatcher, in a one-day House of Commons debate on 16 January, when the Government's handling of the industrial situation was approved by a majority of 24 (301 votes to 277) (*Hansard*, cols 1524-640). She maintained that the right of the citizen to go about his normal business was no longer being upheld by the police or by the Government and called on the Prime Minister to 'redress the balance of trade union power', promising Opposition support for any action taken by the Government to end intimidation by pickets and to protect workers who did not wish to belong to a trade union. She went on to suggest 'no-strike' agreements with unions representing workers who were in a position to deny the community the essentials of life, in return for a different method of wage bargaining.

Speaking for the Liberal Party on 25 January (*Hansard*, cols 771-78) Mr John Pardoe advocated the party's policy of a long-term statutory incomes policy enforced through the selective taxation of excessive wage increases. This might be achieved through a percentage surcharge on the national insurance contribution or, as President Carter had suggested, a reduction in income tax to those who abided by the guidelines, easily administered because individuals could claim back the rebate.

New Measures

Three proposals to help to deal with the current difficulties were put to the House of Commons by Mr Callaghan during the one-day debate on 16 January (*Hansard*, cols 1524-640). They comprised an increase in the amounts that could be offered to the lower-paid, a promise to public sector workers that more account would be taken of private-sector wage settlements in their own negotiations, and the introduction of legislation to strengthen price controls.

The Lower Paid

Under the guidelines announced in the July White Paper *Winning the Battle Against Inflation* (see pp 296-7, 1978), the Government said that it was ready to see percentage increases higher than 5 per cent where the resulting earnings were no more than £44·50 for a normal full-time week. The Prime Minister told the House of Commons that the Government was now prepared to see a cash increase of up to £3·50 for a normal full-time week where this was more favourable than 5 per cent, that is, where normal full-time weekly earnings were currently between £41 and £70. This provision would in general apply in the same way as for the existing £44·50 exception; for example, earnings from overtime and for part-time and juvenile workers would be increased proportionately. In the Government's view, Mr Callaghan added, this change should apply throughout both public and private sectors.

The Government has made clear that the £3·50 is not an individual entitlement. To allow flexibility for negotiators to improve the position of the lower paid, this increase, like the 5 per cent, can be applied as a 'kitty' – or pool – among those benefiting, although the benefit cannot be applied to those above the £70 level even within the same negotiating group.

Public Sector Employees

The Government would be ready to see in some

[1]The Chancellor of the Exchequer said on 15 February in the House of Commons that both Department of Employment figures and the Confederation of British Industry data bank showed that the average level of settlements in the private sector was currently under 10 per cent, or about 8 per cent taking account of self-financing productivity deals (*Hansard*, col 1303).

additional areas of the public sector (other than those engaged in trading where there was a different set of negotiations) a greater role for comparability with the private sector wage settlements in determining pay, Mr Callaghan said. 'The guiding principle should be the achievement of comparable pay for comparable work and comparable effort. Where the employers and the unions concerned make a request, therefore, the Government will be prepared to agree to an investigation into the possibility of establishing, for particular groups of workers, acceptable forms of comparison with terms and conditions for other comparable work [in the private sector]. We will be prepared that the results of negotiations based on such comparisons should be implemented by stages in subsequent years', Mr Callaghan concluded.

Price Commission (Amendment) Act 1979

The Price Commission (Amendment) Act 1979, published as a Bill on 24 January, became law on 12 February. Effective for a year, the Act removes nearly all the profit safeguards in the Price Commission Act 1977. Under that Act, a firm which applied to the Commission for permission for a price rise was able to raise its prices automatically during the period of investigation by the Commission if the increases were necessary to maintain basic levels of profits. Under the new Act this automatic right no longer exists, but the Price Commission retains its power to allow interim price increases at its discretion. Safeguards continue in force in regard to examinations carried out under Section 10 of the 1977 Act, which normally cover complete sectors of industry. This is because the Government or the Price Commission will not always be able to assess the effects on individual firms of general recommendations on prices and margins for a whole sector. Companies will also have the opportunity of raising prices in order to allow for an increase in the price of imported raw materials.

Minimum Lending Rate

The Bank of England announced on 8 February that, with the approval of the Chancellor of the Exchequer, the minimum lending rate (MLR) was being raised from 12·5 per cent to 14 per cent. The increase follows an upward movement of market interest rates in response to uncertainty about the level of pay settlements and is intended to support the Government's policy of monetary restraint.

Public Expenditure Plans

According to the Government's annual White Paper on public expenditure plans published on 17 January,[1] the Government is continuing to plan for public expenditure to increase by about 2 per cent a year in volume terms from 1979-80 to 1982-83. Total expenditure planned for 1979-80 and 1980-81 is in line with the plans in the 1978 White Paper (see p 52, 1978). The plans are intended to be within the growth of national income, discussed in the White Paper in terms of an illustrative range of 2-3 per cent a year, and consistent with the attack on inflation and the general economic strategy. [The danger to the public expenditure plans caused by the uncertainties of the present pay situation were referred to by the Prime Minister, Mr Callaghan, in the House of Commons on 8 February; these uncertainties, he said, could result in a review of total government expenditure and the public sector borrowing requirement (see p 31).] Pensions and other benefits absorb some £16,000 million (at 1978 Survey prices) of public expenditure in 1979-80 and remain the largest programme followed by education, health, environmental services (including housing) and defence each of which is in the range of £7,000 million to £9,000 million. The plans include contingency reserves rising from £800 million in 1979-80 to £2,500 million in 1982-83.

Introduction

The White Paper says that the Government has maintained its policy of planning public expenditure programmes so that the increase in the total is both within what may reasonably be assumed for the growth of national income, and is also consistent with the objectives of counter-inflation policy (see p 296, 1978 and pp 11 and 30) and the Government's general economic strategy. The White Paper plans provide for the total to increase by about 2 per cent a year in volume terms from 1979-80 to 1982-83.

Stability of the main framework of expenditure plans continues to be an important objective. According to the White Paper this permits and encourages forward planning of programmes and contributes to efficiency. To plan faster growth of the total would limit the room for fiscal manoeuvre and would significantly increase the risk that the plans would later have to be cut back, causing disruption and disappointment.

The planning figures in the White Paper for individual programmes in 1979-80 will be the basis for cash limits on public expenditure and for the Government's requests to Parliament for voted expenditure. The Government has already announced that these two control systems are being brought together (see p 334, 1978); over most of the field this will have been done in time for 1979-80. It remains the Government's policy to use the contingency reserve as a control figure within which any decisions which add to programmes will be contained.

For the later years figures are increasingly provisional, based as they are on expectations of, among other things, the level of pay settlements. A substantial and increasing margin has been retained unallocated for the time being to leave some room for decisions to be taken nearer the time.

[1] *The Government's Expenditure Plans 1979-80 to 1982-83.* Cmnd 7439. HMSO, £4·25. ISBN 0 10 174390 4.

Table 1

Changes to Expenditure Programmes Since the 1978 White Paper (Cmnd 7049)

£ million at 1978 Survey prices

	1977-78	1978-79	1979-80	1980-81	1981-82
Defence	−64	−100	−9	−20	—
Overseas aid and other overseas services	+147	−44	−93	−109	−115
Agriculture, fisheries, food and forestry	−53	+110	+234	+160	+157
Trade, industry, energy and employment	−253	−26	+273	+395	+326
Government lending to nationalised industries	−709	−390	−280	−680	−510
Roads and transport	−173	−92	−13	—	+1
Housing	−83	−209	−86	+29	+100
Other environmental services	+51	+161	+160	+163	+154
Law, order and protective services	−87	−37	+5	+22	+48
Education and libraries, science and arts	−72	+2	+50	+42	+39
Health and personal social services	−106	+42	+101	+83	+87
Social security	−71	+102	+459	+457	+550
Other public services	−27	−31	−4	−7	−11
Common services	−30	−22	−12	−1	+9
Northern Ireland	−51	+31	+36	+36	+43
Totals	−1,581	−503	+821	+570	+878

Summary of the Planning Figures

The totals[1] now planned for 1979-80 and 1980-81 are consistent with those in the 1978 White Paper. The present plans provide for the total to continue to grow by about 2 per cent a year in 1981-82 and 1982-83.

The pattern of programmes has changed little since the 1978 White Paper. The main increases are in the programmes for social security, employment services, health, education and law and order. These increases have been covered over the next two years from provision previously unallocated and from reductions in the estimated financing requirements of the nationalised industries. A summary of the changes since the 1978 White Paper is given in Table 1.

In order to avoid discontinuity in moving from actual figures for previous years to planning figures, Table 2, which gives a summary of expenditure plans by spending authorities until 1982-83 together with estimated outturn figures for 1978-79, includes a general allowance for shortfall in 1978-79 and future years. The White Paper says that some continuing difference is to be expected between planning figures and outturn, and the Government allows for this in taking decisions both about expenditure plans and about taxation. The allowance can only be tentative and does not form part of the expenditure control totals. The amount assumed for all years of the planning period is similar to the total shortfall expected for the current year.

Expenditure in Previous Years

Having risen by 9 per cent in volume terms between 1973-74 and 1975-76, expenditure fell by about 2·5 per cent in 1976-77 and by about 7 per cent in 1977-78. The fall in expenditure in the latter year was greater than planned because of a large shortfall in nationalised industry borrowing and a saving of about £700 million in the refinancing of export and shipbuilding credit (see p 23, 1978) without which shortfall was little more than in 1976-77.

Cash limits on central Government, and local authority capital, expenditure were underspent by rather over 3 per cent in cash terms in both 1976-77 and 1977-78.

Expenditure in the Current Year

The growth of expenditure between 1977-78 and 1978-79 has been affected by large changes in nationalised industry borrowing and the refinancing of export and shipbuilding credit, and by the sale in 1977-78 of British Petroleum shares (see p 24, 1977). Excluding these items, an increase in expenditure of about 2·5-3 per cent is at present expected between the two years while expenditure including these items is now expected to rise by about 6 per cent, to a level some 4-5 per cent above that of 1973-74. Shortfall in 1978-79 is still put, tentatively, as it was at the time of the 1978 Budget, at £2,000 million, well below the 1977-78 figure.

Public Expenditure and Gross Domestic Product (GDP)

The White Paper says that with the slow growth of output in recent years, the ratio of total public expenditure to GDP has tended to change in line with the changes in public expenditure. It rose steeply to a peak of 46·5 per cent in 1975-76 and was reduced over the two subsequent years to 40·5 per cent. A rise of between 1 and 2 per cent to 42 per cent is projected for 1978-79. The ratio of general government expenditure on goods and services to GDP shows a similar pattern up to 1978-79, when expenditure in this category is expected to rise more slowly than other expenditure. The White Paper states that the ratios implied for

[1]As in the 1978 White Paper, the planning total differs from total public expenditure by excluding debt interest but including the total net borrowing requirement of the nationalised industries, other than short-term borrowing. Unless otherwise stated, general discussion of expenditure in the White Paper is in terms of this total (see Table 2, lines 10 and 12), and all figures are at 1978 Survey prices.

Table 2

Public Expenditure Plans

£ million at 1978 Survey prices

		Outturn 1978-79 estimate	Plans 1979-80	1980-81	1981-82	1982-83
1	Central Government*	45,038	46,608	46,748	47,254	48,145
2	Local authorities	16,951	17,338	17,597	17,750	17,852
3	Certain public corporations†	969	1,110	1,101	1,053	1,035
4	Total expenditure on programmes (1+2+3)	62,958	65,056	65,446	66,057	67,032
5	Contingency reserve	41‡	800	1,400	2 000	2,500
6	Debt interest	2,200	2,300	2,400	2,400	2,300
7	Total public expenditure (4+5+6)	65,199	68,156	69,246	70,457	71,832
8	Total expenditure on programmes and contingency reserve (4+5)	62,999	65,856	66,846	68,057	69,532
9	Net overseas and market borrowing of nationalised industries	−100	−650	−200	−200	−150
10	Planning total for future years (8+9)§	—	65,206	66,646	67,857	69,382
	Percentage change on previous year	—	2·0¶	2·2	1·8	2·2
11	General allowance for shortfall	−963¶	−2,000	−2,000	−2,000	−2,000
12	Outturn and projected outturn (8+9+11)	61,936	63,206	64,646	65,857	67,382
	Percentage change on previous year	6·2**	2·1	2·3	1·9	2·3

* Including Government lending to nationalised industries.
† Corporations whose capital expenditure is included in public expenditure (mainly the water authorities, Housing Corporation and new town development corporations). These corporations do not include the nationalised industries.
‡ Balance remaining at 15 December in the contingency reserve for the current year.
§ As last year, the planning total excludes debt interest.
¶ Change on the planning total for 1978-79 in Cmnd 7049.
¶ This allowance, when added to that already made for individual programmes in lines 8 and 9, brings the general allowance for shortfall on Cmnd 7049 to £2,000 million.
** Percentage change on outturn in 1977-78.

the years ahead by the expenditure plans will be affected by the growth of GDP, relative movements of costs between the public sector and the economy as a whole, and the amount of shortfall in expenditure.

The Economic Context

In deciding policy on total expenditure the Government takes account of the prospects for the economy, particularly for the growth of GDP and the balance of tax and expenditure. The White Paper discusses the main factors in an assessment of the prospects, and includes three illustrative projections of expenditure and output. This provides a background for the public expenditure plans by showing the possible implications for GDP and the pattern of demand of certain assumptions, for example, about world trade and inflation. The report says that these projections are not predictions or expressions of the Government's intentions; nor do they cover the full range of possibilities. Their usefulness is limited in current circumstances not only by the uncertainties concerning the course of the world economy and the future rate of inflation but by the insecurity of some of the econometric relationships on which they depend, such as that between output and employment.

Table 3 gives the figures for the three illustrative projections. All three incorporate the White Paper's expenditure plans and they all make the same assumptions about the world economic background. The main differences lie in the assumptions made about earnings, productivity, monetary conditions and competitiveness. In each case, the projected level of private expenditure is varied to provide for a satisfactory balance of payments.

Case A assumes that average earnings rise by about 7 per cent during the current pay round and by 5 per cent in the 1979-80 and subsequent pay rounds; case B assumes a constant growth of earnings, throughout the period, of 7 per cent while case C illustrates a less satisfactory outcome, with earnings rising at 11 per cent a year throughout the period. The three projections would imply significantly different rates of price increase: in cases A and B the annual rate of increase in retail prices would fall from present levels; in case C it would return to double figures and remain close to 10 per cent throughout the period of the projections. The White Paper says that as in most industrial countries the underlying growth of productivity seems to have fallen since the early 1970s. The projections assume that it could be several years before productivity returns to the trend increase experienced before 1973 of about 3 per cent a year. However, the pace of recovery in underlying productivity is assumed to vary slightly with the rate of growth of output, and is thus fastest in case A. Monetary growth is assumed to be less than the growth of nominal GDP in case C. These assump-

tions imply that in case A and, less so, in case B, labour costs in manufacturing rise more slowly than the average for competitor countries and British competitiveness improves; in case C competitiveness worsens.

Revenue and Borrowing

The White Paper gives projections of tax revenue and borrowing requirements (see Table 4) consistent with case B described above. Tax revenues for the financial years 1979-80 and 1980-81 are projected on the assumption that personal income tax allowances and bands, and also specific indirect tax rates, are indexed in line with the rise in retail prices during the preceding calendar year. In all other respects, the projections are based on tax legislation currently in force or announced proposals to change it. The tax projections are set alongside the expenditure plans, expressed in cost terms at 1977-78 prices and allowing for shortfall.

The Expenditure Plans

Main Programmes

The allocation of expenditure between the 15 main functional programmes is shown in Table 5. The largest single programme is social security (pensions and other benefits) which absorbs about £16,000 million a year. Four other main blocks of expenditure – education, health, housing and other environmental services, and defence – account for £7,000 million to £9,000 million each.

The White Paper states that the rates of growth of the individual programmes may be affected by subsequent allocations from the contingency reserve. Subject to that, the programmes for social security, health and personal social services, housing and law and order are all planned to rise in volume terms roughly in line with the expenditure total.

The Contingency Reserve and Debt Interest

The planning totals for the years ahead include a substantial reserve to cover contingencies and other requirements which cannot be properly quantified at this stage. About 50 per cent of the total growth in expenditure plans from 1979-80 to 1982-83 has been retained in the reserve.

The figures for debt interest include only those payments which have to be financed from taxation or further government borrowing and exclude those met from interest on money lent or by provision for interest from trading surpluses or rents. The projections for 1979-80 and after are rather higher than in the 1978 White Paper, reflecting the new borrowing projections in Table 5 and the recent higher rates of interest (see p 440, 1978).

The Plans by Economic Category

Current expenditure, the report says, accounts for over 80 per cent of total public expenditure, over half being on goods and services while transfer payments account for the remainder. Capital expenditure is planned to remain broadly constant over the planning period; over 50 per cent of it is on construction work. Direct public expenditure on construction is planned to remain steady over the

Table 3

Expenditure and Output in the Medium Term

Annual average per cent changes at 1975 prices

	1964-73	1973-77	1977-82 case A	1977-82 case B	1977-82 case C
Consumers' expenditure	2·7	—1·1	3·5	3·25	2·75
Government consumption	2·5	2·1	1·75	1·75	1·75
Gross fixed investment	3·5	—2·2	2	1·75	0·5
Exports of goods and services	6·4	4·6	5·75	5·5	4·75
Total final expenditure	3·5	0·1	3·5	3·25	2·5
Imports of goods and services	5·8	—0·6	5·5	5·25	4·5
GDP (market prices)	3·0	0·3	3	2·75	2
GDP (factor cost)	3·0	0·4	3	2·75	2
World trade in manufactures	*10·1*	*5·1*	*6·25*	*6·25*	*6·25*

Table 4

General Government Account and Public Sector Borrowing Requirement

*£'000 million at 1977-78 prices**

	1977-78	1978-79	1979-80	1980-81
General Government receipts	58·8	59·7	61·1	62·9
General Government expenditure	63·7	67·7	68·9	69·8
General Government borrowing requirement	4·9	8·0	7·8	6·9
Public sector borrowing requirement (PSBR)	5·5	7·3	7·2	6·8
PSBR as a percentage of GDP	3·75%	4·75%	4·75%	4·5%

* Figures deflated by the GDP deflator at market prices.

next four years, at about £5,250 million a year. In addition, government grants and lending help to finance other construction work, for example, by the nationalised industries and housing associations. Including this expenditure, the total planned level of public spending on construction amounts to just under £7,000 million a year over the Survey period.

The Plans by Spending Authority

Central Government

The main services provided by the central Government (including transfer payments) account for over 70 per cent of total programmes.

The assimilation of the cash limits and Parliamentary Votes systems will involve two main changes: the coverage of individual Votes and cash limits on expenditure covered by the Votes will be brought into line; and Votes, including those for expenditure not subject to cash limits, will generally be expressed (like cash limits) at the forecast prices of the financial year to which they relate. In this way, the control of expenditure will be simplified.

Nationalised Industries

The industries' borrowing requirements are now projected at levels substantially below their borrowing in past years, largely as a result of the move towards economic pricing. There has also been a marked reduction since the 1978 White Paper in the estimated requirements of the industries as a whole. In aggregate, the industries are expected to continue to finance an increasing proportion of their investment programmes from their own resources (see p 172, 1978).

Local Authorities

Local authorities account for over 25 per cent of public expenditure and for over 50 per cent of the number of people employed full- and part-time in local and central Government. About 90 per cent of their expenditure is on goods and services, and more than 40 per cent is on education.

The small reduction in local authority current expenditure in 1976-77 continued into 1977-78, but growth has been resumed in 1978-79 and the decline in manpower seen in 1976 and 1977 has come to an end.

The rate support grant settlements for 1979-80 provide for a continuation of the modest upward trend in current expenditure. The provision for individual services has been adjusted since the 1978 White Paper in order to reflect more closely the actual pattern of current expenditure by local authorities. Some redistribution in the provision for capital programmes has also been made in the light of local authority decisions to spend more than expected in 1978-79 on local environmental services and less on housing.

Table 5

Total Public Expenditure by Programme 1977-78 to 1982-83

£ million at 1978 Survey prices

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Defence	6,841	6,868	7,178	7,394	7,420	7,420
Overseas aid and other overseas services	1,674	1,762	1,892	2,004	2,005	2,141
Agriculture, fisheries, food and forestry	906	845	916	833	823	819
Trade, industry, energy and employment:						
Refinance of home shipbuilding and fixed rate export credit	—229	439	54	—11	—32	18
Other	1,927*	2,793	3,138	3,197	3,197	3,153
Government lending to nationalised industries	—239	1,100	1,450	800	700	1,000
Roads and transport	2,728	2,782	2,867	2,862	2,842	2,833
Housing	4,868	5,006	5,237	5,495	5,617	5,728
Other environmental services	2,919	3,047	3,122	3,152	3,157	3,151
Law, order and protective services	1,998	2,092	2,137	2,180	2,231	2,274
Education and libraries, science and arts	8,550	8,722	8,817	8,876	8,928	8,926
Health and personal social services	7,914	8,233	8,406	8,523	8,692	8,873
Social security	14,279	15,361	15,835	16,112	16,349	16,549
Other public services	872	882	918	917	943	917
Common services	981	1,007	1,067	1,110	1,159	1,189
Northern Ireland	1,852	2,020	2,023	2,002	2,025	2,040
Total programmes	57,841	62,958	65,056	65,446	66,057	67,032
Contingency reserve	—	41	800	1,400	2,000	2,500
Total	57,841	62,999	65,856	66,846	68,057	69,532
Debt interest	2,173	2,200	2,300	2,400	2,400	2,300
Total public expenditure (see Table 2, line 7)	60,014	65,199	68,156	69,246	70,457	71,832

* Net of £590 million for proceeds of sale of shares in the British Petroleum Company.

Note. The figures for 1977-78 are of outturn; those for 1979-80 onwards are plans and do not allow for shortfall. Those for 1978-79 are early estimates of outturn and do not reflect the further general allowance for shortfall shown in Table 2.

Devolved Services

The report says that if the Government's proposals on devolution (see p 452, 1977 and pp 319 and 383, 1978) are implemented following the referenda in Scotland and Wales on 1 March 1979, the Scottish and Welsh administrations will assume responsibility for substantial amounts of public expenditure in their respective countries. Block totals for devolved expenditure will be settled after consultation with the Scottish and Welsh administrations and in future White Papers this expenditure will be presented in separately identified public expenditure programmes.

Part 4 of the White Paper includes an analysis of the devolved expenditure component of the plans reflecting the Government's present policies for these programmes. The amounts involved for 1979-80 are £3,263 million for Scotland and £1,430 million for Wales. Figures are also given for expenditure in England equivalent to expenditure proposed for devolution to Scotland and Wales. The equivalent figures for England are £22,310 million and £21,764 million respectively. The English totals are different in each case because the coverage of expenditure proposed for devolution to Wales is different from that to Scotland.

Public Expenditure and Taxation

In previous White Papers, references to tax have been limited to the overall balance between revenue and expenditure, and certain specific areas (like child benefit) where tax and expenditure provisions are directly related. The White Paper says that public expenditure presents only part of the picture and that for an improved understanding of the role of fiscal policy it is necessary to look at certain reliefs embodied in the taxation system. Such reliefs can have broadly the same effect on the Government's borrowing requirement as public expenditure. Although their distributional and incentive consequences will be different, there is a case for saying that, where a tax relief benefits a particular group of taxpayers, or a particular sector of the economy, it should be taken into account along with direct public expenditure related to those taxpayers or that part of the economy.

The White Paper discusses the considerations relating to this approach to tax reliefs and concludes that there is no agreement as to the criteria governing its application and the field within which it can be applied. In the circumstances, the Government has decided that the most helpful course is to publish a list of reliefs available in respect of Inland Revenue taxes (Table 16 in the White Paper) giving costs where these are available. This will enable Parliament and the public to form their own views as to which tax reliefs should most appropriately be considered in the context of public expenditure.

Civil Aviation

Recent civil aviation developments have included the expansion of British Airways' Concorde services, with the extension of the London-Washington route to Dallas/Fort Worth airport in Texas and the resumption of flights between London and Singapore, and the establishment of new air services agreements between Britain and the Scandinavian countries of Denmark, Norway and Sweden, which will result in several new services and lower fares between Britain and Scandinavia.

CONCORDE

The new Concorde service to Dallas/Fort Worth was inaugurated on 12 January and was described by the Deputy Chairman and Chief Executive of British Airways, Mr Ross Stainton, as 'an important step in the further development of Concorde operations'. Services are run in conjunction with Braniff International Airways, which is the first United States airline to operate Concorde. Braniff crews fly the aircraft between Dallas/Fort Worth and Washington, travelling subsonically but still at higher speeds than conventional jet aircraft. The scheduled time for the London-Dallas/Fort Worth route, which operates three times a week, is some 7 hours 30 minutes, including a one-hour stop at Washington to change crews, compared with about 9 hours 30 minutes by direct subsonic services. British Airways has recently been carrying an average of 55-60 passengers on each London-Washington flight, but the agreement with Braniff is expected to increase the number carried on the section covered by British Airways to an average of 80 for each flight, producing additional revenue of £2·3 million a year. On the same day Air France extended its Paris-Washington route to Dallas/Fort Worth, also in conjunction with Braniff.

The Concorde service between London and Singapore was resumed on 24 January, reducing the fastest journey time between the two cities from 15 hours to 9 hours. This service, operated jointly by British Airways and Singapore Airlines, was inaugurated in December 1977, but was suspended after three flights each way as a result of objections by the Malaysian Government and subsequently operated only between London and Bahrain. However, following negotiations between the British and Malaysian Governments, the latter has decided to lift the ban for a trial period of six months so that the effects of Concorde's operations in Malaysian air space can be monitored.

AIR SERVICES AGREEMENTS WITH SCANDINAVIA

'Fresh opportunities for services on both sides' are provided for in the new air services agreements between Britain and Denmark, Norway and Sweden, according to a statement issued in Stockholm on 22 December 1978, following the successful completion of negotiations. The statement says that both sides believe that 'the new agreements will provide a sound basis for the future development of air traffic between Scandinavia and Britain'. Under the new agreements, which took effect on 1 January, services can be started between any airport in the Scandinavian countries and any airport in Britain provided that there is sufficient

demand and the services meet other agreed requirements. The first new services, which will be inaugurated later in 1979, will be between London and Jutland, and between Birmingham and Copenhagen, while new services between Edinburgh and Bergen, and between Newcastle upon Tyne and Oslo will begin in 1980. In line with the Government's policy of encouraging the transfer of some services from Heathrow to Gatwick (see pp 70-2, 1978), a number of services to Scandinavia will start to use Gatwick. Flights from Gatwick to Copenhagen will start in April 1979, to Stockholm in 1980 and to Oslo in 1981, while the service to Jutland will also use Gatwick. In addition, the airlines have agreed to reduce the normal economy fares between Britain and Scandinavia from the summer of 1979. The Governments have agreed to maintain the present liberal charter policies and the British Government has undertaken to continue to allow the Scandinavian charter companies to operate to Britain from all three Scandinavian countries.

Shorter Notes

INDUSTRY BILL

A Bill[1] to raise the statutory borrowing limits for the National Enterprise Board (NEB) (see pp 168-9, 1976), the Scottish Development Agency and the Welsh Development Agency (see pp 106-7, 1975) received its second reading in the House of Commons on 18 January (*Hansard*, cols 2011-94) and 23 January (*Hansard*, cols 230-82). The new limits[2] are £3,000 million, £500 million and £250 million respectively, with provision for further increases by affirmative order in the House to £4,500 million, £800 million and £400 million.

Opening the debate, the Secretary of State for Industry, Mr Eric Varley (cols 2023-45), explained that the increases were required to enable the Board and the agencies to meet their operating needs for the next few years and to accommodate for the first time the borrowings of all their subsidiaries. In the case of the NEB, these were expected to increase to about £1,500 million over the next few years and the Government thought that they should be brought within the parliamentary control that the limit provided; the Industry Act 1975 (see pp 486-7, 1975) would be amended accordingly. In the case of the agencies, the Scottish and Welsh Development Agencies' Acts 1975 would similarly be amended in respect of all private sector borrowings by their subsidiaries.

[1] *Industry Bill*. HMSO, 20p. ISBN 0 10 304079 X.

[2] The previous limits were £750 million (raised by affirmative order on 10 April 1978 to £1,000 million), £200 million (with provision for an increase by order to £300 million) and £100 million (with provision for an increase by order to £150 million).

Opposition spokesmen argued against the proposal to raise the borrowing limits for the NEB since they considered that there was inadequate documentary evidence of the Board's performance and prospects. They also thought it unnecessary to raise the limits for the two development agencies, although they accepted the usefulness of much of their work.

DANGEROUS PATHOGENS IN LABORATORIES

Government measures to ensure safety in laboratories handling dangerous pathogens (disease-producing organisms) were announced by the Secretary of State for Social Services, Mr David Ennals, in the House of Commons on 24 January (*Hansard*, cols 435-7). The measures are being taken in the light of the findings of the team led by Professor R. A. Shooter, who investigated the outbreak of smallpox which started in laboratories of the University of Birmingham in August 1978. As a result of the outbreak a member of the University's staff died and over 200 people were placed in quarantine.

Mr Ennals stated that official publication of Professor Shooter's report was still held up by the prosecution of Birmingham University under the Health and Safety at Work Act 1974. However, he said that the Government accepted the substance of the report. It believed that, while the Health and Safety at Work Act provided an effective framework for control of all activities in these laboratories, the present voluntary arrangements must be substantially strengthened and given legal force in order to provide the fullest safeguards for those working in the laboratories and the public at large.

First, the Government had decided, in line with the report's recommendations, that laboratories intending to hold or handle the highly dangerous group of pathogens known as 'Category A' would be required by regulations to notify details of their proposed work and supporting information. Secondly, the report recommended reconsideration of the arrangements for approval of laboratories dealing with Category A pathogens and the Government was starting consultations with a view to replacing the present voluntary arrangements by a licensing system embodied in regulations. Thirdly, the Government had agreed that Category A laboratories should be reviewed annually and lastly it had decided that the responsibilities and constitution of the Dangerous Pathogens Advisory Group should be reviewed and that its membership should be broadened so as to represent those who run and work in the laboratories and the wider public interest. The report also recommended that work with smallpox virus should not be carried out in a densely populated area and that work previously carried on in Professor Dumbell's laboratory at St Mary's Hospital Medical School in London should therefore be re-sited. Mr Ennals said that, except for what was essential to the investigation of the Birmingham outbreak, no work had been done at St Mary's with smallpox virus for over a year. The University of Birmingham had also confirmed that no Category A pathogens were now held there.

International Year of the Child

The United Nations has proclaimed 1979 as International Year of the Child (IYC). Designed to commemorate the twentieth anniversary of the UN Declaration of the Rights of the Child, IYC aims to encourage all countries to review and improve their own national programmes for children, to uphold the rights of the child, and to widen their concern to the problems of children throughout the world.

Britain's Contribution

The main response to IYC in Britain is being directed by the United Kingdom Association for the International Year of the Child 1979 – a registered charity formed in July 1978 with the Queen as Patron and Lady Soames, a daughter of Sir Winston Churchill, as Chairman. Supported by a government grant of £100,000 to fund a small secretariat in London to disseminate information about children's rights and to act as a clearing house for information relevant to IYC, the Association is promoting a series of projects relating to a number of international themes. These include children's rights and responsibilities, activities by children for children, preparation for parenthood, the child and his environment, and the child and violence. Over 400 voluntary organisations concerned with children have joined the Association to promote projects and events which are to run throughout the year, and emphasis is being placed on co-operation between different organisations to produce projects which will be of lasting benefit to children.

The Association's plans for 1979 include a feasibility study on a national centre for children's law; a children's parliament to debate the rights of the child; a programme for preparation for parenthood; and a project to provide community-based facilities for children who commit violent acts. Plans for member organisations range from special events in clubs and schools to an international conference on foster care and an international festival of youth theatre.

In response to the United Nations request to all countries to increase understanding of, and raise funds for, the needs of children in the developing countries, the Government has given £150,000 to the international secretariat established by the United Nations Children's Fund (UNICEF) in New York for co-ordinating the programme in developing countries, and a grant of £40,000 towards a seminar run by the Institute of Child Health, in London, to help set up the 'Child-to-child' programme which involves primary school-age children in developing countries helping with the health care of younger children. Member organisations of the United Kingdom Association such as Save the Children Fund and Christian Aid are also planning special programmes to help meet the needs of children overseas. Oxfam and the United Kingdom committee for UNICEF – two of the major relief organisations in Britain – are sponsoring a joint campaign – 'Together for Children' – to raise £300,000 for educational work and other children's projects in developing countries.

DOCUMENTATION

Government and Administration

Fourth Report from the Select Committee on the Parliamentary Commissioner for Administration. Session 1977-78. Parliamentary Commissioner for Administration (Review of Access and Jurisdiction) HMSO, £3·25. ISBN 0 10 261578 0.

Observations by the Government. Cmnd 7449. HMSO, 25p. ISBN 0 10 174490 0. The Report proposes certain extensions of the jurisdiction and powers of the Commissioner (the Ombudsman). In its response, the Government accepts some of the extensions – notably, over complaints made by British citizens concerning British consular offices abroad and over public service personnel matters.

United Kingdom Government Ministers. COI, SN5657/79/1.

Organic Change in Local Government. Department of the Environment. Introduces proposals for a limited transfer of powers (within the existing local government structure) from county to certain district councils in England, with the aim of making local government more accessible to the people it serves. Following consultation the Government intends to introduce legislation to effect the proposals. Cmnd 7457. HMSO, 25p. ISBN 0 10 174570 2.

Report on the Gilbert Islands Constitutional Conference (see p 21). Cmnd 7445. HMSO, 80p. ISBN 0 10 174450 1.

Saint Lucia. COI, Factel No 683.

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Report on Research and Development 1978. This report, issued by the Ministry of Overseas Development, gives details of over 700 research and development projects financed under Britain's aid programme. HMSO, £2. ISBN 0 11 580215 0.

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Agreement extending the Interim Agreement between the European Economic Community and . . . Jordan. Cmnd 7355. HMSO, 20p. ISBN 0 10 173550 2.

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Agreement extending the Interim Agreement between the European Economic Community and . . . Morocco. Cmnd 7350. HMSO, 25p. ISBN 0 10 173500 6.

Agreement extending the Interim Agreement between the European Economic Community and . . . [Syria]. Cmnd 7351. HMSO, 20p. ISBN 0 10 173510 3.

Economic and Scientific Affairs

The Government's Expenditure Plans 1979-80 to 1982-83 (see p 32). Cmnd 7439. HMSO, £4·25. ISBN 0 10 174390 4.

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Report on Agricultural Marketing Schemes for . . . 1976-77. This report deals with the operation of Agricultural Marketing Schemes, and includes the accounts of the seven marketing boards and statistics concerning the schemes. HMSO, £2·75. ISBN 0 10 214179 7.

The Fishing Industry. Government Observations on the Fifth Report from the Expenditure Committee . . . (see p 233, 1978). Cmnd 7434. HMSO, 50p. ISBN 0 10 174340 8.

British Industry Today: Energy. COI, R5977.

Innovations in Rural Bus Services. Eighth Report from the Select Committee on Nationalised Industries, Session 1977-78. HMSO, £3·25. ISBN 0 10 263578 1.

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Agreement between . . . the United Kingdom . . . and [Greece] in respect of the Regulation of the Taxation of Road Vehicles in International Traffic. Cmnd 7409. HMSO, 20p. ISBN 0 10 174090 5.

Social and Cultural Affairs

Marriage and Divorce Statistics. Review by the Registrar General of marriages and divorces in England and Wales, 1976. HMSO, £2·75. ISBN 0 11 690688 X.

Behavioural Units – A survey of special units for pupils with behavioural problems. HM Inspectorate of Schools. In their study HM Inspectors identify a number of issues which are important whatever form the provision of special units takes. Among these are the need for local education authorities to make reasonable physical and financial provision, to establish clear aims for the units, to give support to teachers and to encourage the involvement of schools and parents in the educational and social development of the pupils. Available free from the Department of Education and Science.

Truancy and behavioural problems in some urban schools. HM Inspectorate of Schools. The report follows a survey by HM Inspectorate into truancy and other behavioural problems in 18 urban secondary schools. Good teaching, careful planning of the curriculum, effective organisation and management, and a regime which encourages pupils to feel

that they are members of a school community, are some of the issues to be considered in tackling the problem. Available free from the Department of Education and Science.

Non-advanced Further Education. Department of Education and Science. The report is concerned mainly with the development of non-advanced further education in England and Wales. It gives an account of courses of study available and of the relationship between this branch of further education with school and adult education. Available free from the Department of Education and Science.

The Housing Corporation Report 1977-8. The fourteenth report of the Housing Corporation for the year ended 31 March 1978. Available free from The Housing Corporation, 149 Tottenham Court Road, London W1P 0BN. ISBN 0 901454 25 7. ISSN 0306-5960.

INDEX

October 1978—February 1979

(1979 pages are in italics)

Apartheid in South Africa: Foreign Secretary's speech, *28*
Arab-Israeli relations, 352

Balance of payments 1977: revised figures, 361
Belize, 341, 431
British aid statistics, 1977, *8*
British construction overseas, 404
British Council, *14*
By-elections and state of the parties, 382

Child, International Year of the, *39*
Chrysler United Kingdom, 366
Civil aviation, *37*
Commons procedure and committees, reform of, 339
Commonwealth finance ministers' meeting, 356
Company law, 436
Counter-inflation policy, 396, *30*

Data protection, *16*
Devolution referendums, 383
Disarmament: Britain's views, 384
Dominica, Commonwealth of, 393

Economy
  counter-inflation policy, 396
  debate on the Queen's Speech, 394
Education, developments in, 369, *13*
European Airbus, 404
European Community, 344, 387, 415, *5, 26*
European Monetary System, 415

Family Expenditure Survey 1977, *12*

Gilbert Islands constitutional, conference, *23*
Government aid to industry, *11*
Government changes, 383
Guadeloupe summit, *25*

Industrial awards, 362
Industrial relations and counter-inflation policy, *30*
Industrial technologies, 438
Industry Bill, *38*
Inner city policy, 372
International Monetary Fund, 397
International Year of the Child, *39*
Invisible trade, 362

Local radio, expansion, 439
Lomé Convention, White Paper, 421

Mental Health Act 1959, review, 368
Micro-electronics, 434
Middle East: Arab-Israeli relations, 352
Ministerial changes, *3*

Namibia, 350, 391, 428
National income and expenditure, 358
Nobel Prize for Chemistry, 407
North Atlantic Treaty Organisation, *5*
Northern Ireland representation in Parliament, *3*

Offshore oil and gas and the British economy, 402
Overseas aid: intermediate technology, 433

Pathogens, dangerous, in laboratories, *38*
Pay policy, *11*
Pollution statistics, 437
Portuguese President, state visit, 429
Prison services, 439
Prorogation and opening of Parliament, 379
Public expenditure plans, *32*
Public lending right, 439

Rhodesia, 346, 389, 423, *28*
  sanctions inquiry, *10*

Saint Lucia, *3*
St Vincent constitutional conference, 340
Sheffield and South Yorkshire Navigation improvement scheme, 367
Shorter Notes, 341, 367, 393, 407, 433, 438, 439, *3, 9, 11, 16, 38*
South Africa, apartheid in: Foreign Secretary's speech, *28*
Southern Africa, 346, 389

Tuvalu, 341

UK-Chinese relations, 430
UK-Polish relations, 429
UNESCO, 432
United Kingdom Atomic Energy Authority, 367
United Nations General Assembly: speech by Dr Owen, 342
US-China relations, *9*

Vehicle excise duty, changes, 438

World Bank group, 400

Zambia, British support for, 391

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